

***Arkansas Development
Finance Authority,***
a Component Unit of the State of Arkansas

*Financial Statements and Other Supplementary
Information for the Years Ended June 30, 2002
and 2001, and Independent Auditors' Report*

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

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ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis is designed to assist the reader in focusing on significant issues and activities and to identify any significant changes in the financial position of the Arkansas Development Finance Authority (“ADFA” or the “Authority”). Readers are encouraged to consider the information presented in conjunction with the financial statements and notes as a whole.

UNDERSTANDING THE FINANCIAL STATEMENTS

The basic financial statements include three required statements: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement of cash flows. These statements are presented for all of ADFA’s programs in the financial statements. Comparative totals as of and for the year ended June 30, 2001 are also presented. Although not required, these comparative totals are intended to facilitate an enhanced understanding of the Authority’s financial position and results of operations for the current fiscal year in comparison to the prior fiscal year. ADFA has seven programs presented as supplementary information following the notes to the financial statements: Single Family Housing Programs; Federal Housing Programs; Multi-family Programs; Economic Development Bond Guaranty Program; Other Economic Development/State Facilities Programs; Tobacco Bond Program; and General Fund Programs. A description of each of these programs is included in Note 1 to the financial statements.

CONDENSED STATEMENTS OF NET ASSETS (In thousands)

	2002	2001
Capital assets	\$ 225	\$ 487
Other assets	<u>1,692,646</u>	<u>1,749,281</u>
Total assets	<u>1,692,871</u>	<u>1,749,768</u>
Total liabilities	<u>1,520,051</u>	<u>1,598,527</u>
Net assets:		
Restricted by bond resolution	122,801	107,337
Invested in capital assets	225	487
Unrestricted	<u>49,794</u>	<u>43,417</u>
Total net assets	<u>\$ 172,820</u>	<u>\$ 151,241</u>

As of June 30, 2002, ADFA’s total assets of \$1.69 billion consisted primarily of investments and loans receivable. Total assets decreased approximately \$57 million or six percent (6%) compared to total assets as of June 30, 2001. ADFA’s total liabilities decreased approximately \$78 million, or nine percent (9%), to \$1.52 billion as of June 30, 2002. The decrease in both assets and liabilities is primarily attributed to the Authority’s new bond issuance of \$195.4 million during the fiscal year offset by bond redemptions of \$330.9 million. Net assets are displayed in the following three components: restricted, invested in capital assets, and unrestricted. Net assets restricted by bond resolution totaled \$122.8 million and \$107.3 million for

June 30, 2002 and 2001, respectively. Net assets invested in capital assets were approximately \$225 thousand and \$487 thousand as of June 30, 2002 and 2001, respectively. Unrestricted net assets totaled \$49.8 million and \$43.4 million as of June 30, 2002 and 2001, respectively.

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(In thousands)

	2002	2001
Total investment income	\$ 117,289	\$ 142,438
Other income	<u>40</u>	<u>22</u>
Total operating revenues	117,329	142,460
Total interest on bonds and notes	85,147	88,083
Total amortization	1,458	1,345
Administrative expenses	<u>17,535</u>	<u>24,328</u>
Total operating expenses	<u>104,140</u>	<u>113,756</u>
OPERATING INCOME	13,189	28,704
CAPITAL GRANTS AND CONTRIBUTIONS	11,266	13,339
OPERATING TRANSFERS OUT	<u>(2,876)</u>	<u> </u>
CHANGE IN NET ASSETS	21,579	42,043
NET ASSETS:		
Beginning of year	<u>151,241</u>	<u>109,198</u>
End of year	<u>\$ 172,820</u>	<u>\$ 151,241</u>

Operating income and capital grants and contributions totaled \$24.5 million and \$42.0 million for fiscal years ended June 30, 2002 and June 30, 2001, respectively. The change of \$17.5 million is primarily attributed to decreases in the net appreciation in the fair value of investments. The operating loss from the tobacco bond issue (new in fiscal year 2002 and discussed below) decreased net assets by approximately \$2.3 million.

The overall financial position and results of operations of ADFA has improved.

OTHER FINANCIAL HIGHLIGHTS

Loans and direct financing lease income decreased \$4.6 million, to \$24.7 million for year ending June 30, 2002. The average interest yield was 4.8% at June 30, 2002 compared with 5.1% at June 30, 2001. The decline is attributed to a lower average loan/lease receivable balance resulting from bond redemptions/refundings transacted during the current year, as well as lower interest rates on loans and leases associated with new bond issues. Revenues from interest and dividends were \$60.1 million and \$60.4 million for fiscal years ending June 30, 2002 and June 30, 2001, respectively. The average return on cash, cash equivalents, and investments was approximately the same for the two periods, 5.2% at June 30, 2002 compared with 5.3% at June 30, 2001. Amortization of discounts on loans decreased to \$7.0 million from \$11.7 million for fiscal year ending June 30, 2002. A lower amount of prepayments from the Multi-Family Program's below market interest rate bonds was received during fiscal year 2002 compared with fiscal year 2001, resulting in a decrease in the amortization of \$4.7 million.

The average interest expense on bonds and notes payable was 5.9% at June 30, 2002, compared with 6.1% at June 30, 2001. The decrease is attributed to bond redemptions/refundings as well as a lower average note balance on the Single Family convertible note program.

Total administrative expenses decreased \$6.8 million during fiscal year ending June 30, 2002, compared with fiscal year ending June 30, 2001. This is primarily attributed to the decreases in provision for loan losses (\$2.4 million) and the Below Market Interest Rate Program (“BMIR”) participant expense (\$2.7 million). In fiscal year 2002, the provision related to loans in the Economic Development Bond Guaranty program was \$1.6 million compared with \$4.0 million in fiscal year 2001. This is partially attributed to new loans originated each year and the related initial loan loss reserve recorded by the Authority. In fiscal year 2002, \$14.9 million in new loans were guaranteed by the program, with related reserves of \$700 thousand. During fiscal year 2001, \$20.7 million in new loans were guaranteed, with initial loan loss reserves of \$2.4 million. The BMIR program participant expense decrease reflects a decline in amounts distributed to participating states, as a result of the amount of loan prepayments and the cost of Treasury strips, which are purchased to provide for the future debt service of the bonds.

During September 2001, ADFA issued \$60 million of revenue bonds associated with the State of Arkansas’ (the “State”) Tobacco Settlement Revenue (“TSR”) to be used by participating colleges to construct and equip three facilities outlined by the Arkansas Tobacco Settlement Funds Act of 2000. The bonds are to be repaid from the first \$5 million of annual TSRs paid to the State. Once the construction of the three facilities is completed and the bond proceeds and related interest are expended, the Authority’s financial statements will only reflect the bonds payable, not the corresponding assets, as the resulting buildings will be recorded on the financial statements of the respective colleges. Interest income on the bond proceeds is recorded as deposits against financing arrangements on the statement of net assets while interest expense is recorded as such on the statement of revenues, expenses and changes in net assets. For the fiscal year ending June 30, 2002, \$2.3 million was recorded as interest expense for this bond issue.

Currently, ADFA has an Issuer’s Credit Rating (“ICR”) from Standard & Poors of ‘A’. The Authority has maintained this rating since it was assigned in 1999. Changes in state and federal legislation and statutes can play a role in ADFA achieving its goals and objectives.

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Arkansas Development Finance Authority:

We have audited the accompanying statements of net assets of Arkansas Development Finance Authority, a Component Unit of the State of Arkansas (the "Authority"), as of June 30, 2002 and 2001, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, in fiscal 2002, the Authority adopted Government Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 2002 audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements of the Authority. These financial statements are also the responsibility of the management of the Authority. Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 9, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 9, 2002
Little Rock, Arkansas

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

**STATEMENTS OF NET ASSETS
JUNE 30, 2002 AND 2001
(EXPRESSED IN THOUSANDS)**

ASSETS	2002	2001
Cash and cash equivalents	\$ 138,506	\$ 118,419
Accounts receivable	1,196	1,505
Accrued interest receivable	8,348	9,489
Investments, at fair value	1,091,468	1,149,138
Loans receivable, net of allowance \$12,932 in 2002 and \$10,533 in 2001	359,987	388,416
Deferred charges	9,211	10,668
Direct financing leases	82,093	70,021
Real estate owned	1,837	1,625
Capitalized assets, net	<u>225</u>	<u>487</u>
Total assets	<u>1,692,871</u>	<u>1,749,768</u>
 LIABILITIES		
Accounts payable	4,880	6,302
Accrued interest payable	28,743	28,866
Bonds and notes payable, net of unamortized discounts and premiums	1,430,104	1,510,217
Deposits against financing arrangements	46,959	43,727
Deferred fees	<u>9,365</u>	<u>9,415</u>
Total liabilities	1,520,051	1,598,527
 COMMITMENTS AND CONTINGENCIES		
 NET ASSETS		
Restricted by bond resolution	122,801	107,337
Invested in capital assets	225	487
Unrestricted	<u>49,794</u>	<u>43,417</u>
Total net assets	<u>\$ 172,820</u>	<u>\$ 151,241</u>

See notes to financial statements.

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2002 AND 2001
(EXPRESSED IN THOUSANDS)**

	2002	2001
OPERATING REVENUES:		
Investment income:		
Loans and direct financing lease income	\$ 24,726	\$ 29,351
Interest and dividends	60,108	60,409
Amortization of discounts on loans	6,974	11,696
Financing fee income	2,926	2,351
Net appreciation in the fair value of investments	<u>22,555</u>	<u>38,631</u>
Total investment income	117,289	142,438
Other income	<u>40</u>	<u>22</u>
Total operating revenues	117,329	142,460
OPERATING EXPENSES:		
Interest on bonds and notes:		
Current interest	84,514	87,171
Accreted interest	<u>633</u>	<u>912</u>
Total interest on bonds and notes	85,147	88,083
Amortization:		
Amortization of discounts and premiums on bonds and notes	(16)	(212)
Amortization of bond and note issuance costs	<u>1,474</u>	<u>1,557</u>
Total amortization	1,458	1,345
Administrative expenses:		
Provision for loan losses	2,767	5,200
Federal financial assistance programs	6,477	9,352
Salaries and benefits	3,285	3,255
Operations and maintenance	1,230	752
BMIR program participant expense	424	3,093
Other	<u>3,352</u>	<u>2,676</u>
Total administrative expenses	<u>17,535</u>	<u>24,328</u>
Total operating expenses	<u>104,140</u>	<u>113,756</u>
OPERATING INCOME	13,189	28,704
CAPITAL GRANTS AND CONTRIBUTIONS	11,266	13,339
OPERATING TRANSFERS OUT	<u>(2,876)</u>	
CHANGE IN NET ASSETS	21,579	42,043
NET ASSETS:		
Beginning of year	<u>151,241</u>	<u>109,198</u>
End of year	<u>\$ 172,820</u>	<u>\$ 151,241</u>

See notes to financial statements.

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
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**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2002 AND 2001
(EXPRESSED IN THOUSANDS)**

	2002	2001
OPERATING ACTIVITIES:		
Interest received on investments	\$ 60,759	\$ 62,504
Interest received on loans	25,216	28,855
Financing fee income received	2,876	1,870
Other cash received	348	1,257
Cash paid for interest	(84,637)	(86,266)
Cash paid for program administration	<u>(12,899)</u>	<u>(25,963)</u>
Net cash used in operating activities	(8,337)	(17,743)
INVESTING ACTIVITIES:		
Purchase of investments	(1,271,606)	(1,182,847)
Maturities of investments	1,351,831	1,070,027
Purchase of capitalized assets	(102)	(196)
Loan disbursements	(73,450)	(37,702)
Principal repayments on loans	105,874	70,610
Direct financing lease disbursements	(23,039)	(304)
Principal repayments on capital leases	<u>10,967</u>	<u>8,986</u>
Net cash provided by (used in) investing activities	100,475	(71,426)
NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds and notes payable	253,838	211,829
Repayments of bonds and notes payable	(334,568)	(178,261)
Nonoperating grants received	8,390	13,339
Payments of debt issuance cost	(903)	(806)
Collection of financing fees	<u>1,192</u>	<u>1,076</u>
Net cash (used in) provided by noncapital financing activities	<u>(72,051)</u>	<u>47,177</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,087	(41,992)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>118,419</u>	<u>160,411</u>
End of year	<u><u>\$ 138,506</u></u>	<u><u>\$ 118,419</u></u>

(Continued)

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2002 AND 2001
(EXPRESSED IN THOUSANDS)**

	2002	2001
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -		
Interest paid	<u>\$ 85,270</u>	<u>\$ 87,178</u>
SUPPLEMENTAL SCHEDULE OF NONCASH		
INVESTING ACTIVITIES -		
Real estate acquired in settlement of loans	<u>\$ 212</u>	<u>\$ 670</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 13,189	\$ 28,704
Adjustments to reconcile operating income to net cash used in operating activities:		
Amortization of discounts on loans	(6,974)	(11,696)
Amortization of deferred financing fees	(1,734)	(1,275)
Accreted interest	633	912
Amortization of bond and note discounts	(16)	(212)
Amortization of bond and note issuance costs	1,474	1,557
Depreciation of capitalized assets	364	69
Provision for loan losses	2,767	5,200
Net appreciation of investments	(22,555)	(38,631)
Changes in operating assets and liabilities:		
Accounts receivable	309	773
Accrued interest receivable	1,141	2,366
Other assets	886	290
Accounts payable	(1,422)	(3,586)
Accrued interest payable	(123)	905
Other liabilities	<u>3,724</u>	<u>(3,119)</u>
Net cash used in operating activities	<u>\$ (8,337)</u>	<u>\$ 17,743</u>

See notes to financial statements.

(Concluded)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2002 AND 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Arkansas Development Finance Authority (the "Authority") was created May 1, 1985, by Act 1062 of 1985 (Arkansas Development Finance Authority Act) as a successor to the former Arkansas Housing Development Agency (created in 1977) whereby all records, funds, property, obligations, debts, functions, powers and duties were transferred to the Authority. The Authority is a public body politic and corporate, with corporate succession, to be an independent instrumentality exercising essential public functions. Pursuant to Act 1062, the Authority is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments, and industrial enterprises.

Bonds and other debt instruments issued by the Authority and included on the Authority's financial statements are special obligations of the Authority, payable solely from and collateralized by a first lien on the proceeds, monies, revenues, rights, interests and collections pledged therefore under the resolutions authorizing the particular issues. The State of Arkansas is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State of Arkansas is pledged to the payment of the principal or redemption price of, or interest on, the bonds and other debt instruments. The Authority has no taxing power.

The major accounting principles and practices followed by the Authority are presented below:

Recently Issued Accounting Pronouncements - In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB 34"), as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and by GASB Statement No. 38, *Certain Financial Statement Disclosures*. GASB Statement No. 34, as amended and commonly referred to as the new reporting model, retained much of the old reporting and disclosure requirements under the prior reporting model, with certain modifications and newly added information. This statement was implemented by the Authority for the year ended June 30, 2002. Prior year amounts have been restated for comparability purposes. The adoption of GASB 34 did not have an effect on retained earnings (net assets) as previously reported.

Basis of Accounting - The Authority uses the accrual method of accounting whereby expenses are recognized when the liability is incurred and revenues are recognized when earned. The Authority has adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting*. As permitted by the statement, the Authority has elected not to adopt Financial Accounting Standards Board ("FASB") Statements issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

Since the business of the Authority is essentially that of a financial institution having a business cycle greater than one year, the statement of net assets is not presented in a classified format.

Fund Accounting - The Authority utilizes internal accounts, each of which includes accounts for the assets, liabilities, net assets, revenues, and expenses of the Authority's programs and activities.

The following describes the nature of the operations and significant programs currently maintained by the Authority:

- (i) Single Family Housing Program
 - (a) *Single Family Mortgage Purchase Program* - Accounts for proceeds from single family mortgage revenue bonds, the debt service requirements of the bonds, and the related mortgage backed securities or mortgage loans for single family owner-occupied housing in Arkansas.
 - (b) *Single Family Convertible Note Program* - A drawdown bond program utilized by ADFA to warehouse tax-exempt authority obtained through replacement refundings. The program utilizes privately placed, tax-exempt bonds, with the bond interest rate determined by collateral earnings.
- (ii) Federal Housing Programs
 - (a) *Section 8 Housing Assistance Payment Program* - Accounts for Section 8 housing assistance funds received in advance, housing assistance payment disbursements, and Authority fees and expenses related to the Section 8 Housing Assistance Payment Program.
 - (b) *HOME Partnership Program* - Accounts for federal financial assistance received from the Department of Housing and Urban Development for the purpose of developing and supporting affordable housing through tenant based rental assistance, rental rehabilitation, new construction, or assistance to homebuyers and homeowners.
- (iii) Multi-Family Programs
 - (a) *Multi-Family Mortgage Purchase Program* - Accounts for the proceeds of the multi-family mortgage revenue bonds, the debt service requirements of the bonds, and the related mortgage loans for multi-family housing in Arkansas, most of which are HUD approved and insured.
 - (b) *GNMA/BMIR Bond Program* - Accounts for proceeds from the sale of GNMA Guaranteed Bonds, debt service requirements on the bonds, related Below Market Interest Rate mortgages purchased with bond proceeds, disbursements to program participants of excess loan prepayments, and the Authority's fees and expenses in connection with the program.
 - (c) *FAF/New BMIR Loan Programs* - These programs were funded by distributions ADFA received from the GNMA/BMIR Bond Program as well as from Financing Adjustment Factor distributions from the federally funded Section 8 Housing Assistance Payment Program.
- (iv) Economic Development Bond Guaranty Program
 - (a) *Bond Guaranty Program* - Accounts for guaranty fees collected, interest earned on investments, and disbursements made in connection with bond guaranties provided by the Authority. The fund was created by Act 505 of 1985 which authorized a grant of \$6 million from the State Treasurer (which was subsequently repaid by the Authority) for the purpose of enhancing and supporting the creditworthiness of bonds and other debt instruments guaranteed by the Authority. At June 30, 2002 and 2001, the funds

had cash and cash equivalents and investments totaling \$23.9 and \$24.6 million, respectively, in the reserve account to collateralize Authority-guaranteed bonds and future issues under the bond guaranty program.

(v) Economic Development/State Facilities Programs

- (a) *Development Finance Programs* - Accounts for the proceeds from the sale of development revenue bonds and notes; the debt service requirements of the bonds and notes and related loans to developers, public and private institutions and government bodies within the State of Arkansas; and includes certain assets not owned and related obligations not owed by the Authority.

(vi) Tobacco Bond Program

- (a) *Tobacco Settlement Revenue Bonds, Series 2001* - Accounts for the proceeds from the sale of tobacco settlement revenue bonds; the debt service requirements of the bonds and related disbursements of bond proceeds to participating colleges to be used to fund the construction and equipping of three projects outlined by the Arkansas Tobacco Settlement Funds Act of 2000.

(vii) Other Programs and General Fund

- (a) *ADFA General Fund* - Accounts for revenue charged by the Authority for issuing and administering various programs; operating expenses of the Authority; special initiatives of the Authority, such as direct loan programs; and money or residual assets, such as mortgages, transferred from other funds to the extent such transfers are permitted by the resolutions.

Cash and Cash Equivalents - Cash and cash equivalents include all cash balances and highly liquid investments with a maturity at acquisition of three months or less.

Investments - The Authority accounts for investments in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* ("GASB 31"). GASB 31 requires that certain investments be reported at fair value and that changes in the fair value of investments be reported as a component of investment income. The fair value of the investments at June 30, 2002 and 2001, was in excess of the cost-basis by approximately \$23.8 million and \$1.2 million, respectively.

The Authority utilizes various investment instruments. Those investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of those investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Authority will ultimately realize could differ materially.

Loans Receivable, Net - Loans are recorded at cost, adjusted for any discount or premium prorated to maturity and an allowance for losses. The loans are not valued at the lower of cost or market because it is the Authority's intention to hold the loans to maturity. However, the borrower may prepay the loan or foreclosure may become necessary.

Direct Financing Leases - The Authority issues revenue bonds to provide financing of correction facilities, office space for the State of Arkansas, and certain transactions for private companies. In all cases, the Authority does not maintain or operate the facilities. Arrangements of this type are accounted for in the various funds as financing arrangements in accordance with the provisions of Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*.

Deferred Charges - Costs related to issuing bonds and notes and discount on sale of bonds and notes are capitalized and are amortized over the term of the bonds and notes based on the balance of bonds and notes outstanding. Early retirement of bonds results in proportionate amounts of amortization of bond issuance costs and discounts.

Capitalized Assets - Furniture, fixtures, and equipment are carried at cost, less accumulated depreciation. Depreciation for financial statement purposes is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years.

Deposits Against Financing Arrangements - Deposits against financing arrangements represent debt service funds and interest earned on funds created by trust indentures associated with bond issuances that are held by the Authority to be used by the borrower to pay debt service to the Authority. If not used to pay debt service, these funds are returned to the borrower at the end of the financing arrangement.

Deferred Fees - The Authority receives commitment fees from lenders for earmarking funds and financing fees from borrowers. Deferred commitment fees which are nonrefundable are amortized into income ratably over the term of the respective programs based on the balance of bonds outstanding, which approximates the mortgage loans outstanding.

Provision for Losses - Provision for losses on loans and property acquired by foreclosure has been established by management based on amounts outstanding and historical experience. Provision for losses includes charges to reduce the recorded balance of loans and property to their estimated net realizable value. Such provisions are based on management's estimate of the net realizable value of the collateral or property, as applicable, considering current and anticipated future operating or sales information which may be affected by changing economic and/or operating conditions beyond the Authority's control, thereby causing these estimates to be particularly susceptible to changes that could result in a future adjustment increasing the provision for losses and, consequently, decreasing retained earnings. Improvements in these factors and unforeseen recoveries may reduce the estimated allowance level and recover some of the previously provided allowance.

Conduit Debt Obligations - Conduit debt issued by the Authority is recorded on the Authority's balance sheet if either (a) the Authority has a vested interest in the residual value of the bond issue after its retirement or (b) the Authority guarantees the debt through the Bond Guaranty fund. Additionally, the Authority reports conduit debt obligations of entities that are included in the State of Arkansas reporting entity on its balance sheet.

Net Assets -

Restricted by Bond Resolution - Represents those funds restricted within the respective bond resolution.

Invested in Capital Assets - Represents the balance of capital assets, net of depreciation. No related debt exists.

Unrestricted Net Assets - Represents those funds used at the discretion of ADFA's Board of Directors to compliment bond and loan programs and to provide for the Authority's operations.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain 2001 amounts have been reclassified to conform to the 2002 presentation.

2. DEPOSITS AND INVESTMENTS

(a) Deposits - At June 30, 2002 and 2001, the carrying amount of the Authority's deposits was approximately \$2.7 million and \$3.8 million, respectively, and the bank balance was \$3.0 million and \$4.7 million, respectively. Of the bank balance, \$1.1 million and \$1.2 million, respectively, was insured by federal depository insurance and \$1.9 million and \$3.5 million, respectively, was collateralized by collateral held in a Federal Reserve pledge account.

The following schedule reconciles the reported amount of deposits as disclosed above to the statement of net assets (expressed in thousands):

	2002	2001
Reported amount of deposits	\$ 2,744	\$ 3,837
Investments disclosed as cash equivalents for GASB 3	(942)	(915)
Cash equivalents disclosed as investments for GASB 3	<u>136,704</u>	<u>115,497</u>
Cash and cash equivalents as reported on the statement of net assets	<u>\$ 138,506</u>	<u>\$ 118,419</u>

(b) Investments - In accordance with Governmental Accounting Standards Board Statement No. 3, *Accounting and Financial Reporting for Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*, the Authority's investments are categorized to give an indication of the level of credit risk assumed. Category 1 includes investments that are insured, collateralized or registered, or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or

Investments at June 30, 2002, by security type and level of credit risk (expressed in thousands):

Security Type	Category			Fair Value
	1	2	3	
Categorized:				
U.S. Government and agency securities	\$915,980			\$ 915,980
Commercial paper	253			253
Repurchase agreements	<u>2,348</u>			<u>2,348</u>
Total investments categorized by investment type	<u>\$918,581</u>			<u>918,581</u>
Uncategorized:				
Investment agreements				170,978
Money market mutual funds				<u>137,671</u>
Total uncategorized				<u>308,649</u>
TOTAL INVESTMENTS				<u>\$ 1,227,230</u>

Investments at June 30, 2001, by security type and level of credit risk (expressed in thousands):

Security Type	Category			Fair Value
	1	2	3	
Categorized:				
U.S. Government and agency securities	\$ 861,280			\$ 861,280
Commercial paper	<u>253</u>			<u>253</u>
Total investments categorized by investment type	<u>\$861,533</u>			<u>861,533</u>
Uncategorized:				
Investment agreements				285,728
Money market mutual funds				<u>116,459</u>
Total uncategorized				<u>402,187</u>
TOTAL INVESTMENTS				<u>\$ 1,263,720</u>

Under the investment agreements noted above, monies held by the trustees of the respective issues are invested at guaranteed rates for predetermined periods of time. The investments are backed by noncollateralized promissory notes of the lending institutions, most of which are rated A or better; therefore, the collectibility of such investments is dependent in part on the ability of the institutions to repay the promissory notes. As discussed in Notes 1 and 6, bonds issued by the Authority are payable solely from and collateralized by a lien on the proceeds, monies, revenues, rights, interest, and collections pledged under the resolutions authorizing the particular issues; consequently, any loss from investments impacts the particular related bond fund.

The following schedule reconciles the carrying amount of investments as disclosed above to the statement of net assets (expressed in thousands):

	2002	2001
Reported amount of investments	\$ 1,227,230	\$ 1,263,720
Investments disclosed as cash equivalents for GASB 3	942	915
Cash equivalents disclosed as investments for GASB 3	<u>(136,704)</u>	<u>(115,497)</u>
Investments as reported on the statement of net assets	<u>\$1,091,468</u>	<u>\$1,149,138</u>

The Authority invests in various asset and mortgage-backed securities. These securities are reported at fair value in the statement of net assets. They are also included in the totals of U.S. Government and agency securities in the disclosure of custodial credit risk. The Authority invests in these securities to enhance yields on investments. Changes in market interest rates could affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

3. LOANS RECEIVABLE

Single Family Mortgage Purchase Programs and Multi-Family Mortgage Purchase Programs - All mortgage loans purchased under the single family and multi-family mortgage purchase programs are collateralized by first liens on real property. All mortgage loans purchased by the Authority under the FHA/VA Single Family Mortgage Purchase Programs are FHA insured or VA guaranteed mortgage

loans. Loans purchased under the Conventional Single Family Mortgage Purchase Program are insured up to an aggregate limit for each issue by supplemental mortgage insurance. Private mortgage insurance is required to the extent that individual loans purchased under the Conventional Single Family Mortgage Purchase Program exceed 80% of the lesser of the appraised value of the property or sales price.

Each loan purchased under the GNMA/BMIR Loan Purchase Program was made pursuant to the FHA program for below market interest rate mortgage loans and is insured by the FHA pursuant to Section 212(d)(3) of Title II of the National Housing Act.

Bond Guaranty Programs - Loans and leases to private companies for financing the acquisition or expansion of facilities are collateralized by liens on and security interests in collateral granted by the companies and by guaranty agreements between the Authority and one or more guarantors. To a limited extent and only when specified by a specific trust indenture, the payment of principal and interest on the bonds is guaranteed by the Authority under the ADFA Bond Guaranty Act (Act 505 of 1985). At June 30, 2002 and 2001, respectively, the Authority reported in its statement of net assets \$52.9 million and \$50.2 million in loans and leases to private companies and with an agency of the State of Arkansas as well as \$70.4 million and \$64.9 million in related bond issues which are guaranteed by the Bond Guaranty Fund. Differences between the loan balance and the related bond balance are attributed primarily to the allowance for loan loss of \$8.8 million and \$5.7 million, construction draw accounts of \$5.3 million and \$4.1 million, and timing differences between loan collection and bond payment of \$6.3 million and \$4.8 million. Additionally, the Bond Guaranty Fund guarantees principal and interest on revenue bonds issued by municipalities within the State of Arkansas for economic development purposes. At June 30, 2002 and 2001, respectively, bonds outstanding of \$8.7 million and \$9.4 million, respectively, were guaranteed by the Bond Guaranty Fund. Furthermore, the Bond Guaranty Fund guarantees principal and interest on bond anticipation notes. At June 30, 2002 and 2001, respectively, principal guaranteed on these notes totaled \$4.9 million and \$4.5 million.

Other Economic Development/State Facilities Programs - Includes financing activities with educational institutions, health facilities, and other various state agencies. At June 30, 2002 and 2001, respectively, the Authority reported loans of \$98.2 million and \$109.2 million, direct financing leases of \$78.6 million and \$70.0 million, and bonds outstanding of \$201.2 million and \$233.6 million related to the financing arrangements with these institutions and agencies. Differences between the loan and lease balances and the related bond balance are attributed primarily to construction draw accounts of \$16.9 and \$45.1 million, investment account balances of \$6.5 million for both 2002 and 2001 and timing differences between loan/lease collection and bond payment of \$1 million and \$2.8 million.

Loans to educational institutions for financing the cost of equipment and other capital improvements have been approved by the bond insurer, Federal Guaranty Insurance Company, which has issued a bond insurance policy to insure payment of the principal and interest on the bonds when due.

The stated interest rates on the loans are as follows:

	Stated Interest Rate
Single Family Housing Program Fund	5.95 to 10.25%
Multi-Family Housing Program Fund	0.00 to 8.79%
Economic Development Program Fund:	
Bond Programs	Rate on bonds
Other Programs	3%
Other Programs and General Fund	0.00 to 10.00%

4. NET INVESTMENT IN DIRECT FINANCING LEASES

The Authority is the lessor under various direct financing capital leases whereby the Authority issued bonds for the acquisition or construction of certain facilities and then leased the facilities to other state agencies. At the end of the lease terms, these leases either transfer ownership to the other agencies or contain bargain purchase options. Future minimum lease payments receivable under these leases which begin expiring in 2007 are as follows (expressed in thousands):

Year ending June 30:	Lease Payments
2003	\$ 9,601
2004	10,095
2005	10,089
2006	10,086
2007	10,216
2008 - 2012	37,376
2013 - 2017	14,453
2018 - 2022	<u>4,329</u>
Total minimum lease payments receivable	106,245
Less amount representing interest	<u>(24,152)</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS RECEIVABLE	<u>\$ 82,093</u>

5. CAPITALIZED ASSETS

Premises and equipment at June 30 are summarized as follows (expressed in thousands):

	2002	2001
Cost -		
Furniture, fixtures, and equipment	\$ 752	\$ 713
Less accumulated depreciation	<u>(527)</u>	<u>(226)</u>
TOTAL	<u>\$ 225</u>	<u>\$ 487</u>

Depreciation expense for the years ending June 30, 2002 and 2001, respectively, was \$364 thousand and \$69 thousand.

6. BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30 were as follows (expressed in thousands):

	2002	2001
Total Single Family Bonds Payable, with interest rates ranging from 2.73-10% and final maturity at varying dates through 2032	\$ 921,540	\$ 1,014,962
Less unamortized discount/plus unamortized premium	(217)	993
Total Single Family Bonds Payable, net	<u>921,323</u>	<u>1,015,955</u>
Total Multi-Family Bonds Payable, with interest rates ranging from 2.4-9.75% and final maturity at varying dates through 2027	170,187	185,640
Less unamortized discount	(1,240)	(754)
Total Multi-Family Bonds, net	<u>168,947</u>	<u>184,886</u>
Total Economic Development Bonds Payable, Guaranteed by the Bond Guaranty Fund, with interest rates ranging from 2.35-8.48% and final maturity at varying dates through 2029	<u>70,351</u>	<u>64,836</u>
Total Other Economic Development/State Facilities Bonds Payable, with interest rates ranging from 2.35-10% and final maturity at varying dates through 2029	203,988	235,473
Less unamortized discount	(505)	(633)
Total Other Economic Development Bonds Payable, net	<u>203,483</u>	<u>234,840</u>
Tobacco Bond Payable, with interest rates ranging from 2.8-5.5% and final maturity at varying dates through 2041	<u>60,000</u>	
Total General Fund Note Payable, with interest rates ranging from 1.81-3.98% and final maturity at varying dates through 2002	<u>6,000</u>	<u>9,700</u>
TOTAL ALL PROGRAMS BONDS AND NOTES PAYABLE, NET	<u>\$ 1,430,104</u>	<u>\$ 1,510,217</u>

Future amounts required to pay principal and interest on all bonds and notes payable at June 30, 2002, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized premiums and discounts of \$1.962 million:

	Principal	Interest	Total
Year Ending June 30:			
2003	\$ 101,048	\$ 82,107	\$ 183,155
2004	49,122	78,485	127,607
2005	50,678	75,378	126,056
2006	51,718	72,094	123,812
2007	52,394	68,729	121,123
2008 - 2012	258,540	288,753	547,293
2013 - 2017	252,713	220,564	473,277
2018 - 2022	217,723	159,149	376,872
2023 - 2027	216,729	93,583	310,312
2028 - 2032	157,290	30,390	187,680
2033 - 2037	20,225	2,863	23,088
2038 - 2042	3,886	531	4,417
TOTAL	<u>\$ 1,432,066</u>	<u>\$ 1,172,626</u>	<u>\$ 2,604,692</u>

The Authority has entered into an interest rate swap agreement to effectively convert \$10 million of variable rate debt based on the 3-month LIBOR to fixed rate debt with an effective rate of 7.698%. The Authority is exposed to interest rate risk under the swap agreement if the 3-month LIBOR rate is less than 7.418%. The interest rate swap agreement is set to expire January 2, 2014.

Under the bond resolutions, the Authority has the option to redeem bonds at various premium rates. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for six to ten years. Certain special redemptions, at par as governed by the bond resolutions, are permitted or required prior to such time.

The bonds and notes are collateralized, as described in the applicable bond and note resolutions, by the revenues, monies, investments, mortgage loans, and other assets in the funds and accounts established by the respective bond and note resolutions.

As of June 30, 2002, the remaining principal amounts outstanding on issues defeased in previous years are as follows (expressed in thousands):

<u>Issue</u>	<u>Date of Defeasance</u>	<u>Principal Outstanding</u>
1979 Series A Single Family Conventional Bonds	September 1988	\$ 49,535

During the normal course of business, the Authority issues economic development revenue bonds and multi-family housing revenue bonds on behalf of private companies within the State of Arkansas. The bonds are payable solely from and secured by a pledge of revenues from the private companies to which the bond proceeds were remitted and accordingly, have been excluded from the Authority's financial statements. At June 30, 2002 and 2001, respectively, the bonds outstanding issued under these programs aggregated \$345.1 million and \$334.5 million.

7. CONCENTRATIONS OF RISK IN LENDING AND LOAN RECEIVABLE INSURANCE

The Authority, through its normal lending activity, originates and maintains loans receivable which are substantially concentrated primarily in Arkansas. The Authority's policy calls for collateral or other forms of repayment assurance to be received from the borrower at the time of loan origination. Such collateral or other form of repayment assurance is subject to changes in economic value due to various factors beyond the control of the Authority, and such changes could be significant.

Additionally, the Authority is heavily dependent on private insurers for recovery of loan principal should a borrower or borrowers not pay the principal and should any collateral prove to be insufficient in value to provide for full recovery of principal and accrued interest. This dependency is concentrated in a limited number of insurers and the Authority's ability to monitor closely the insurers' financial condition is limited.

8. RETIREMENT PLAN

The officials and employees of the Authority participate in a state-wide, multiple-employer public employee retirement system administered by the Arkansas Public Employees Retirement System (the "System"). There is no legal obligation imposed upon the member agencies relative to the operation of the System other than the payment of a percent of the gross salaries of eligible employees participating in the System as an employer contribution. State law provides that Authority contributions for all covered state employees are to be based on 10% of gross payroll. All contributions required of the Authority were made for the years ended June 30, 2002 and 2001. For the years ended June 30, 2002 and 2001, the Authority's covered payroll and total payroll for all employees amounted to approximately \$3.3 million.

The contributory plan has been in effect since the beginning of the System, and is available to all persons who became members before January 1, 1978. The noncontributory plan was effective January 1, 1978, and applies automatically to all persons hired January 1, 1978, or later in System covered employment. Employees joining the System prior to July 1, 1997, are vested after ten years of employment. Beginning July 1, 1997, the vesting period for new members was reduced to five years. A member covered by the contributory plan can elect to be covered by the noncontributory plan, and the change will be effective January 1, 1978, regardless of when the election was made. The System is audited separately, and included therein is financial data and trend information which gives an indication of the extent to which the system is accumulating sufficient assets to pay benefits when due.

9. CONTINGENCIES

The Authority participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectibility of any related receivable at June 30, 2002 and 2001, may be impaired. In the opinion of the Authority, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

During fiscal 2001, the U.S. Department of Housing and Department (“HUD”) began a review of the Home Program. On June 12, 2001, HUD issued a preliminary findings report focusing on the Authority’s failure to obtain environmental reviews on Home projects. As a result of this failure, HUD suspended the Authority’s ability to automatically draw funds in the Integrated Disbursement Information System. In order for the Authority to draw additional Home funds, the Authority was required to submit an environmental certification and obtain an approved Release of Funds from HUD.

During fiscal 2002, ADFA regained its ability to draw funds and the approved release of funds was received from HUD.

The Authority currently participates in an arrangement whereby a liability may be created through prepayments of debt associated with a loan portfolio recorded in the Multi-Family Housing Programs Fund. A portion of the prepayments of loan principal in this portfolio are reinvested in investments to cover future debt service payments associated with this portfolio. Any excess amount is then disbursed to various housing agencies in other states based on a participation agreement.

The Authority has \$30.0 million and \$61.6 million of amounts recorded as cash and investments reported in the statement of net assets that will be disbursed to borrowers under loan agreements closed prior to June 30, 2002 and 2001, respectively.

The Authority is a defendant in a number of legal actions. While the final outcome of many of these legal actions cannot be determined at this time, management is of the opinion that the ultimate liability, if any, for these legal actions will not have a material effect on the Authority’s financial position.

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. The Authority has made provisions for revenues above the rebate limit which must be remitted to the Federal Government.

10. SUBSEQUENT EVENTS

Subsequent to June 30, 2002, the Authority issued approximately \$40 million in special obligation bonds in the Single Family Housing Program Fund.

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

OTHER SUPPLEMENTARY INFORMATION - COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2002

(EXPRESSED IN THOUSANDS)

	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program	Other Economic Development State Facilities Programs	Tobacco Bond Program	General Fund Programs	Eliminations	Total
ASSETS									
Cash and cash equivalents	\$ 72,697	\$ 46	\$ 12,626	\$ 12,467	\$ 33,842	\$ 1,853	\$ 4,975		\$ 138,506
Accounts receivable	333	53	102	12	447		3,218	\$ (2,969)	1,196
Accrued interest receivable	4,852	32	539	474	1,768	43	640		8,348
Investments, at fair value	877,405		70,506	23,974	36,837	53,582	29,164		1,091,468
Loans receivable, net	48,019	24,597	117,736	49,407	102,067		18,161		359,987
Deferred charges	8,196		1,015						9,211
Direct financing leases				3,452	78,641				82,093
Real estate owned		175	382	1,225			55		1,837
Capitalized assets, net							225		225
Total assets	<u>1,011,502</u>	<u>24,903</u>	<u>202,906</u>	<u>91,011</u>	<u>253,602</u>	<u>55,478</u>	<u>56,438</u>	<u>(2,969)</u>	<u>1,692,871</u>
LIABILITIES									
Accounts payable	2,598	227	4,139	43	458		384	(2,969)	4,880
Accrued interest payable	23,975		1,958	845	1,720	245			28,743
Bonds and notes payable, net of unamortized discounts and premiums	921,323		168,947	70,351	203,483	60,000	6,000		1,430,104
Deposits against financing arrangements			235	2,770	43,587	367			46,959
Deferred fees	<u>6,708</u>		<u>541</u>	<u>2,081</u>			<u>35</u>		<u>9,365</u>
Total liabilities	954,604	227	175,820	76,090	249,248	60,612	6,419	(2,969)	1,520,051
COMMITMENTS AND CONTINGENCIES									
NET ASSETS									
Restricted by bond resolution and program	56,898	24,676	27,086	14,921	4,354	(5,134)			122,801
Invested in capital assets							225		225
Unrestricted							49,794		49,794
Total net assets	<u>\$ 56,898</u>	<u>\$ 24,676</u>	<u>\$ 27,086</u>	<u>\$ 14,921</u>	<u>\$ 4,354</u>	<u>\$ (5,134)</u>	<u>\$ 50,019</u>	<u>\$ -</u>	<u>\$ 172,820</u>

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS
ADDITIONAL INFORMATION - COMBINING STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2002
(EXPRESSED IN THOUSANDS)

	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program	Other Economic Development State Facilities Programs	Tobacco Bond Program	General Fund Programs	Eliminations	Total
OPERATING REVENUES:									
Investment income:									
Loans and direct financing									
lease income	\$ 4,495	\$ 76	\$ 5,898	\$ 3,248	\$ 9,980		\$ 1,029		\$ 24,726
Interest and dividends	54,672	1	1,804	1,391	372		1,868		60,108
Amortization of discounts on loans			6,974						6,974
Financing fee income	1,208	114	115	429	65		2,709	\$ (1,714)	2,926
Net appreciation in the fair value of investments	<u>17,675</u>	<u> </u>	<u>4,127</u>	<u>892</u>	<u>(1,159)</u>	<u> </u>	<u>1,020</u>	<u> </u>	<u>22,555</u>
Total investment income	78,050	191	18,918	5,960	9,258		6,626	(1,714)	117,289
Other income	<u> </u>	<u> </u>	<u>24</u>	<u> </u>	<u> </u>	<u> </u>	<u>16</u>	<u> </u>	<u>40</u>
Total operating revenues	<u>78,050</u>	<u>191</u>	<u>18,942</u>	<u>5,960</u>	<u>9,258</u>	<u> </u>	<u>6,642</u>	<u>(1,714)</u>	<u>117,329</u>
OPERATING EXPENSES:									
Interest on bonds and notes:									
Current interest	52,644		15,241	3,980	10,123	\$ 2,258	268		84,514
Accreted interest	<u>633</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>633</u>
Total interest on bonds and notes	53,277		15,241	3,980	10,123	2,258	268		85,147
Amortization:									
Amortization of discounts and premiums on bonds and notes	(285)		141						(16)
Amortization of bond and note issuance costs	<u>1,146</u>	<u> </u>	<u>328</u>	<u> </u>	<u>128</u>	<u> </u>	<u> </u>	<u> </u>	<u>1,474</u>
Total amortization	<u>861</u>	<u> </u>	<u>469</u>	<u> </u>	<u>128</u>	<u> </u>	<u> </u>	<u> </u>	<u>1,458</u>
Administrative expenses:									
Provision for loan losses		600	534	1,571	3		59		2,767
Federal financial assistance programs		6,888						(411)	6,477
Salaries and benefits							3,285		3,285
Operations and maintenance							1,230		1,230
BMIR program participant expense			424						424
Other	<u>1,755</u>	<u>302</u>	<u>731</u>	<u>695</u>	<u>220</u>	<u> </u>	<u>952</u>	<u>(1,303)</u>	<u>3,352</u>
Total administrative expenses	<u>1,755</u>	<u>7,790</u>	<u>1,689</u>	<u>2,266</u>	<u>223</u>	<u> </u>	<u>5,526</u>	<u>(1,714)</u>	<u>17,535</u>
Total operating expenses	<u>55,893</u>	<u>7,790</u>	<u>17,399</u>	<u>6,246</u>	<u>10,474</u>	<u>2,258</u>	<u>5,794</u>	<u>(1,714)</u>	<u>104,140</u>
OPERATING INCOME	22,157	(7,599)	1,543	(286)	(1,216)	(2,258)	848		13,189

(Continued)

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

**ADDITIONAL INFORMATION - COMBINING STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN RETAINED EARNINGS
YEAR ENDED JUNE 30, 2002
(EXPRESSED IN THOUSANDS)**

	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program	Other Economic Development State Facilities Programs	Tobacco Bond Program	General Fund Programs	Eliminations	Total
CAPITAL GRANTS AND CONTRIBUTIONS		\$ 10,714	\$ 463				\$ 89		\$ 11,266
OPERATING TRANSFERS FROM (TO) OTHER FUNDS	<u>\$ (1,879)</u>	<u>76</u>	<u>(1,912)</u>	<u>\$ (1,479)</u>	<u>\$ 16</u>	<u>\$ (2,876)</u>	<u>5,178</u>	<u> </u>	<u>(2,876)</u>
CHANGE IN NET ASSETS	20,278	3,191	94	(1,765)	(1,200)	(5,134)	6,115		21,579
NET ASSETS: Beginning of year	<u>36,620</u>	<u>21,485</u>	<u>26,992</u>	<u>16,686</u>	<u>5,554</u>	<u> </u>	<u>43,904</u>	<u> </u>	<u>151,241</u>
End of year	<u>\$ 56,898</u>	<u>\$ 24,676</u>	<u>\$ 27,086</u>	<u>\$ 14,921</u>	<u>\$ 4,354</u>	<u>\$ (5,134)</u>	<u>\$ 50,019</u>	<u> </u>	<u>\$ 172,820</u>

(Concluded)